

Message Text

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PASS EXIM

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TAGS: BPRO, RP
SUBJ: APPLICATION FOR COOPERATIVE FINANCING FACILITY - PHILIPPINE
AMERICAN INVESTMENTS CORPORATION (PAIC)

REF: STATE 125097

1. PAIC WAS FORMED IN 1973 WITH 20 PERCENT EQUITY FROM CHASE MANHATTAN BANK, 20 PERCENT FROM PHILAMLIFE INSURANCE COMPANY, AND 30 PERCENT EACH FROM TWO FILIPINO INDIVIDUALS. IT PRESENTLY RANKS 8TH OUT OF THE 12 INVESTMENT HOUSES IN MANILA IN TERMS OF TOTAL ASSETS. IF CONTINGENT ACTIVITIES ARE INCLUDED (PRIMARILY SALE OF CORPORATE PAPER DIRECTLY TO THIRD PARTIES WITHOUT RECOURSE, BUT WHICH PAIC FEELS IT HAS A MORAL OBLIGATION TO BACK), PAIC RANKS 4TH. ACCORDING TO THE PRESIDENT, JOSE ABELLO, PAIC HAS A HIGH QUALITY PORTFOLIO, INCLUDING A NUMBER OF MULTI-NATIONALS, DUE IN LARGE PART TO THE AFFILIATION WITH CHASE.

2. FOR THE YEAR ENDING DECEMBER 31, 1976, TOTAL ASSETS AMOUNTED TO 314 MILLION PESOS, 235 MILLION OF WHICH WERE COMMERCIAL PAPER AND SHORT-TERM INVESTMENTS, 14 MILLION LOANS RECEIVABLE DUE IN ONE YEAR, AND 16 MILLION LONG-TERM LOANS RECEIVABLE. ON THE LIABILITIES SIDE, 277 MILLION PESOS WERE IN SHORT-TERM BORROWINGS AND RE-
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PURCHASE AGREEMENTS, AND 28 MILLION IN STOCKHOLDER EQUITY. CREDIT REPUTATION IS GOOD.

3. ACCORDING TO ABELLO, 75 TO 80 PERCENT OF PAIC EARNINGS COME FROM DEALINGS IN THE MONEY MARKET. THE REMAINDER COMES FROM OTHER SERVICES, INCLUDING INVESTMENT ADVICE, FINANCIAL CONSULTANCY, LOAN SYNDICATIONS, AND GUARANTEE

ACTIVITY.

4. ABELLO IS IN FACT CONCERNED ABOUT THE FUTURE OF MONEY MARKET OPERATIONS, FOLLOWING A RECENT PRESIDENTIAL DECREE IMPOSING A 35 PERCENT TAX ON INTEREST INCOME FROM MONEY MARKET TRANSACTIONS. IMPORTANT MOTIVATION FOR THIS TAX APPEARS TO BE REVENUE PRODUCTION, THOUGH IT CLEARLY HAS POTENTIAL FOR SUBSTANTIALLY RESTRUCTURING MONEY AND CAPITAL MARKETS. TRACING THE EFFECT OF THIS TAX, ABELLO CALCULATES THAT THE INTEREST WHICH INVESTMENT HOUSES WILL BE ABLE TO OFFER FOR MONEY MARKET PLACEMENTS WILL BE REDUCED FROM THE PRESENT 13 TO 14 PERCENT RANGE TO AROUND 9.5 PERCENT. HE BELIEVES THAT THIS IS NOT A COMPETITIVE RATE (COMPARED WITH CENTRAL BANK CERTIFICATES OF INDEBTEDNESS, FOR EXAMPLE), AND FORESEES THE MONEY MARKET DRYING UP IF THE 35 PERCENT TAX STICKS. THE INVESTMENT HOUSES ASSOCIATION OF THE PHILIPPINES, OF WHICH ABELLO IS PRESIDENT, HAS FORMALLY ARGUED FOR A LOWER RATE BEFORE THE MONETARY BOARD, AND THE BANKERS ASSOCIATION OF THE PHILIPPINES IS APPARENTLY IN THE PROCESS OF PREPARING ITS POSITION, THOUGH COMMERCIAL BANKS OBVIOUSLY HAVE A WEAKER INTEREST. PROSPECTS FOR LOWERING THE RATE ARE UNCERTAIN, THOUGH ABELLO INDICATED HE HAD BEEN GIVEN NO CAUSE FOR OPTIMISM.

5. IF THE MONEY MARKET DOES IN FACT DRY UP, INVESTMENT HOUSES LIKE PAIC WILL HAVE TO TRIM SAILS. OF THE "OTHER SERVICES" REFERRED TO ABOVE, WHICH ACCOUNT UNCLASSIFIED

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FOR JUST 20 TO 25 PERCENT OF PAIC EARNINGS, ABOUT HALF IS IN IN LOAN SYNDICATIONS, AND THIS AREA PROMISES NO EXPANSION, WITH INCREASING COMPETITION RESULTING FROM THE ESTABLISHMENT OF OFFSHORE BANKING IN MANILA.

6. PAIC PLANS FOR UTILIZATION OF THE CFF ARE INDEFINITE, THOUGH IT WAS INDICATED THEY HAVE INTEREST IN A SECOND-HAND PLANT INSTALLATION AND SOME RAW MATERIAL IMPORTS FROM THE U.S. EMBASSY OFFICER ADVISED THAT SECOND-HAND PLANT WOULD PROBABLY BE ELIGIBLE FOR CFF PROVIDING IT WAS EXPORTED FROM U.S. AND NOT THIRD COUNTRY, BUT THAT RAW MATERIAL EXPORTS NOT NORMALLY HANDLED THROUGH THIS PROGRAM.

7. CONCERNING YOUR QUESTION IN PARA 3, REFTTEL, PREVAILING DOMESTIC INTEREST RATE FOR MEDIUM TERM FINANCING (1-5 YEARS) RANGES BETWEEN 19 AND 21 PERCENT. STULL

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